

Chapter 10

Payroll Setup

Objectives

After completing this chapter, you should be able to:

- Set up Payroll accounts in the *Chart of Accounts* (page 300)
- Understand Payroll Items (page 301)
- Use the *Payroll Setup Interview* to add Payroll Items (page 302)
- Use the *Payroll Setup Interview* to add Employee records (page 313)
- Set up Employee Defaults (page 322)
- Run Employee Reports (page 327)

Restore this File

This chapter uses PRSetup-12.QBW. To open this file, restore the PRSetup-12.QBM file to your hard disk. See page 8 for instructions on restoring files. If you are using QuickBooks Premier Accountant, we recommend that you toggle to QuickBooks Premier General Business as described on page x.

In this chapter, you will learn how to set up QuickBooks to track your Payroll. In order to use QuickBooks to track your Payroll, you must properly set up your *Payroll Accounts*, *Payroll Items*, *Employees*, and *Opening Balances*. If you plan to process payroll manually or use an outside payroll service, you will still need to set up QuickBooks to correctly record your Payroll transactions.

You have five choices for using QuickBooks to track your Payroll:

1. **Manual Payroll.** You can prepare your own Payroll manually in QuickBooks without the use of any tax tables. This option is not recommended for most users, but it is provided if you want to manually calculate your Payroll. You may also want to prepare Payroll manually if you use an outside Payroll service other than Intuit (e.g., ADP or Paychex). With an outside Payroll service you would be required to re-enter Payroll details into QuickBooks. *This chapter uses Manual Payroll.*
2. **Basic Payroll.** You can prepare your own Payroll in-house using QuickBooks Standard Payroll. This option is recommended for users who want a cost-effective way to maintain control and flexibility of their Payroll process. Basic Payroll utilizes up-to-date tax tables that automatically calculate Employee deductions, and fills out the company's federal tax forms.
3. **Enhanced Payroll.** This option is recommended for users who need a comprehensive in-house Payroll solution that offers all the features of Standard Payroll plus additional features like state Payroll forms, workers' compensation tracking, and one-step net-to-gross calculations. Like the Basic Payroll option, Enhanced Payroll utilizes up-to-date tax tables that automatically calculate Employee deductions, and fills out the company's federal tax forms.
4. **Online Payroll.** Intuit Online Payroll offers many of the same features as Enhanced Payroll, including state Payroll forms, workers' compensation tracking, and tax tables. Because it is available online, this Payroll option doesn't require QuickBooks and can be accessed when you are away from your QuickBooks data.

5. **Assisted Payroll.** This option is recommended for users who want all the flexibility of processing their own Payroll found in Enhanced Payroll, but would like Intuit to complete all of their tax filings, deposits, and W-2s.

For detailed information on the differences between these options, select the *Employees* menu, select **Payroll**, and then select **Learn About Payroll Options**. Intuit occasionally makes changes to their Payroll options between version releases, and there may be changes since the publication of this book.

Checklist for Setting up Payroll

Like the setup of your company file, the proper setup of your Payroll is the most important factor in getting it to work well for you. Table 10-1 provides you with a checklist for your Payroll setup. Make sure that you complete each step in the order given unless it really does not apply.

Payroll Setup Checklist

1. Gather information about each of your employees, including the name, address, social security number, and W-4 information.
2. Activate the Payroll function in *Preferences*.
3. Set up Payroll Accounts in the *Chart of Accounts*. Example accounts: Gross Wages, Payroll Tax Expense, Federal PR Tax Liabilities, and State PR Tax Liabilities.
4. Enable your QuickBooks file for Payroll processing, either manually or by signing up for one of QuickBooks Payroll services.
5. Using the *Payroll Setup Interview*, set up Payroll Items, Payroll Vendors, Employee defaults, Employee records, and year-to-date Payroll figures.
6. Add additional Payroll Items directly from the Payroll Item list.
7. Edit Payroll Items to modify the Vendor information and the way the Items affect the *Chart of Accounts*.
8. If setting up mid-year, enter year-to-date information for additional Payroll Items on the Payroll list for each Employee, and enter year-to-date liability payments.
9. Verify Payroll Item setup, Employee setup, and the Vendor list.
10. Proof your setup. Use the *Payroll Checkup* wizard and compare reports with your accountant's or Payroll service's reports. The *Payroll Checkup* wizard is not covered in this chapter.

Table 10-1 Payroll Setup Checklist

Key Term - W-4: Form W-4 is the IRS form that each of your employees must complete when you hire them. The IRS requires employees to provide you with their name, address, social security number, and withholding information on this form. The Internal Revenue service has many payroll forms available online at www.irs.gov. For form W-4, enter **W4** in *Search* field.

Payroll Accounts

In your *Chart of Accounts*, confirm that you have all of the accounts you want to see on your *Balance Sheet* and *Profit and Loss Reports*. Academy Photography uses the following accounts for Payroll. These accounts are already set up in the practice file.

Example Liability Accounts for Payroll

Name	Type	Balance Total	Attach
♦ 24000 • Payroll Liabilities	Other Current Liability	368.00	
♦ 24010 • Company Payroll Taxes Payable	Other Current Liability	368.00	
♦ 24020 • Employee Payroll Taxes Payable	Other Current Liability	0.00	
♦ 24030 • Other Payroll Liabilities	Other Current Liability	0.00	
♦ 24200 • Line of Credit	Other Current Liability	6,700.00	
♦ 24500 • Advance Customer Payments	Other Current Liability	0.00	
♦ 25500 • Sales Tax Payable	Other Current Liability	138.31	
♦ 27000 • Truck Loan	Long Term Liability	12,000.00	
♦ 30000 • Opening Bal Equity	Equity	0.00	

Figure 10-1 Payroll Liability Accounts

Example Expense Accounts for Payroll

Name	Type	Balance Total	Attach
♦ 65000 • Payroll Expenses	Expense		
♦ 65010 • Gross Wages	Expense		
♦ 65030 • Payroll Tax Expense	Expense		
♦ 65040 • Employee Benefits	Expense		
♦ 65050 • Officer's Compensation	Expense		
♦ 66500 • Postage and Delivery	Expense		
♦ 66700 • Professional Fees	Expense		
♦ 67100 • Rent Expense	Expense		
♦ 67200 • Repairs and Maintenance	Expense		

Figure 10-2 Payroll Expense Accounts

If you are not sure which accounts you should include in your *Chart of Accounts*, ask your accountant. However, you should normally have only a few subaccounts associated with the *Payroll Liabilities* account, and a few subaccounts associated with the *Payroll Expenses* account. Do not add unnecessary accounts and subaccounts to the *Chart of Accounts*, since the detailed tracking of Payroll comes from *Payroll Items* and not accounts.

If your *Chart of Accounts* already has too many accounts or subaccounts, you can merge some accounts until you have a manageable number of accounts.

Payroll Items

Payroll Items are used to track the compensation, additions, deductions, and other employer-paid expenses listed on the employee's paycheck. These Items include wages, commissions, tips, benefits, taxes, dues, retirement plans, and any other additions and deductions to an employee's paycheck. Like other QuickBooks Items, Payroll Items are connected to the *Chart of Accounts* so that as paychecks are created, the accounting behind the scenes is handled automatically. In addition, Payroll Items are used to accumulate Payroll Liabilities. Figure 10-3 shows the Payroll Item List after the *Payroll Setup Interview*, which is discussed beginning on page 302, has been completed.

Item Name	Type	Amount	Annual Limit	Tax Tracking	Payable To	Account ID
Salary Vacation	Yearly Salary			Compensation		
Hourly Regular	Hourly Wage			Compensation		
Hourly Vacation	Hourly Wage			Compensation		
Commission	Commission	0.0%		Compensation		
Bonus	Bonus	0.0%		Compensation		
401k Deduction	Deduction	-4.0%	-16,500.00	401(k)	Merrill Lynch	99-1133334
Medical Insurance	Deduction	-10.0%		None		
Match 401k	Company Contribution	2.0%	5,500.00	None		
Advance Earned Income Credit	Federal Tax			Advance EIC Pay...	EFTPS	11-3456789
Federal Unemployment	Federal Tax	0.8%	7,000.00	FUTA	EFTPS	11-3456789
Federal Withholding	Federal Tax			Federal	EFTPS	11-3456789
Medicare Company	Federal Tax	1.45%		Comp. Medicare	EFTPS	11-3456789
Medicare Employee	Federal Tax	1.45%		Medicare	EFTPS	11-3456789
Social Security Company	Federal Tax	6.2%	106,800.00	Comp. SS Tax	EFTPS	11-3456789
Social Security Employee	Federal Tax	6.2%	-106,800.00	SS Tax	EFTPS	11-3456789
CA - Withholding	State Withholding Tax			SWH	EDD	123-4567-8
CA - Disability	State Disability Tax	1.1%	-90,669.00	SDI	EDD	123-4567-8
CA - Unemployment	State Unemployment Tax	3.4%	7,000.00	Comp. SUI	EDD	123-4567-8
CA - Employment Training Tax	Other Tax	0.1%	7,000.00	Co. Paid Other Tax	EDD	123-4567-8

Figure 10-3 Payroll Item List

The Payroll Setup Interview

The *Payroll Setup Interview* is a set of windows similar to the *EasyStep Interview* that walks you through the setup of Payroll. Using this wizard is optional, but if you are starting from scratch (as shown here), you will probably find it helpful. Even if you have existing Payroll, the wizard can take the guesswork out of setting up new benefits and wages for your Employees.

COMPUTER PRACTICE

- Step 1. From the *Employees* menu, select **Payroll Setup**.
- Step 2. QuickBooks displays the *QuickBooks Payroll Setup* window shown in Figure 10-4. Click **Continue**.

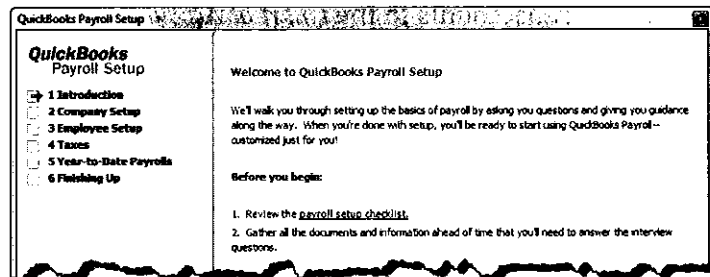


Figure 10-4 Payroll Setup Interview window

Setting up Compensation and Benefits Payroll Items

In this section of the setup wizard, you will set up compensation Items (i.e., hourly wages, salary wages, bonuses, commissions, etc.).

COMPUTER PRACTICE

- Step 1. QuickBooks displays the Compensation and Benefits section in shown in Figure 10-5. Click **Continue**.

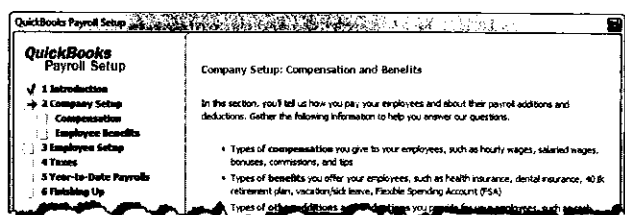


Figure 10-5 Payroll Setup Interview – Step 2 - Compensation and Benefits

Step 2. QuickBooks displays the *Add New* window and pre-selects *Salary*, *Hourly wage and overtime*, and *Bonus, award, or one-time compensation* (see Figure 10-6). Select the **Commission** *Other compensation* item and click **Next**.

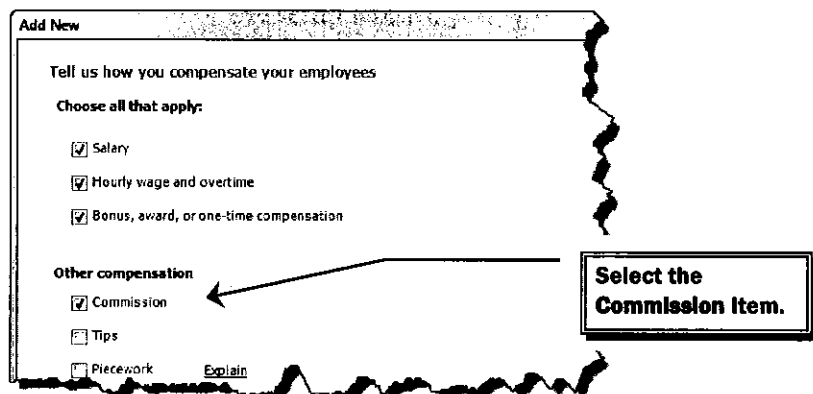


Figure 10-6 Payroll Setup Interview - Add New compensation options

Step 3. In the next screen, QuickBooks wants to know how commissions should be calculated. Select **Percentage of sales (or other amount)** and click **Finish** (see Figure 10-7).

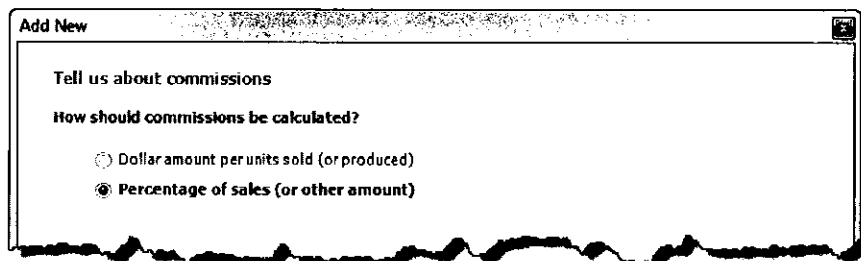


Figure 10-7 Payroll Setup Interview – commissions calculations

Step 4. QuickBooks displays the *Compensation* list shown in Figure 10-8. At this point, we need to modify this list by editing some of the names and adding new ones.

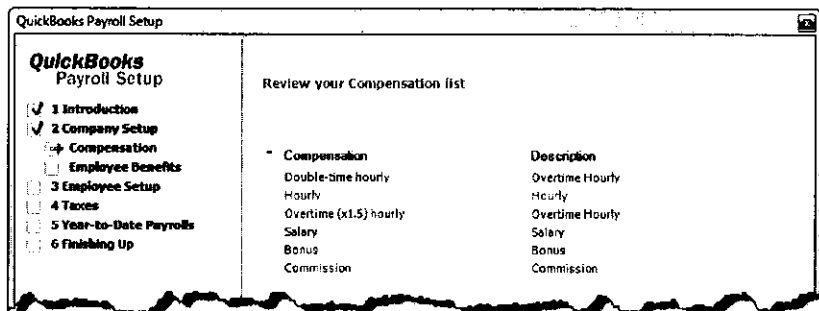


Figure 10-8 Payroll Setup Interview – Review the Compensation list

- Step 5. To change the name of the Hourly Payroll Item to *Hourly Regular*, select **Hourly** from the *Compensation list* and click **Edit**.
- Step 6. Type *Hourly Regular* in the *Show on paychecks as* field (see Figure 10-9) and select **Payroll Expenses:Gross Wages** from the *Account name* drop-down list. Then click **Finish**.

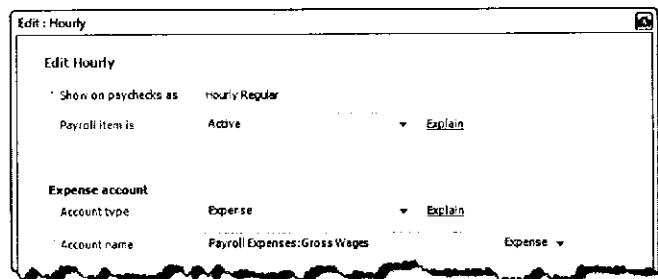


Figure 10-9 Edit Hourly Pay window

- Step 7. Edit or delete the rest of the default compensation items, renaming and editing the accounts to match the table shown in Table 10-2. Leave all other fields set to their defaults as you edit the items.

Default Item Name	Change to this Name	Change to this Account
Double-time hourly	Delete this Item	Delete this Item
Hourly	Hourly Regular	Payroll Expenses:Gross Wages
Overtime (x1.5) hourly	Delete this Item	Delete this Item
Salary	Salary Regular	Payroll Expenses:Gross Wages
Bonus	Bonus	Payroll Expenses:Gross Wages

Table 10-2 Compensation Item Names and Accounts

- Step 8. When you're finished editing the default Payroll Items, your list will look like the one in Figure 10-10.

Compensation	Description
Hourly Regular	Hourly
Salary Regular	Salary
Bonus	Bonus
Commission	Commission

Figure 10-10 Compensation Items after renaming

- Step 9. Click **Continue** to set up Employee benefits.

Medical Insurance Deduction

- Step 1. QuickBooks displays the *Set up employee benefits* window. Click **Continue**.

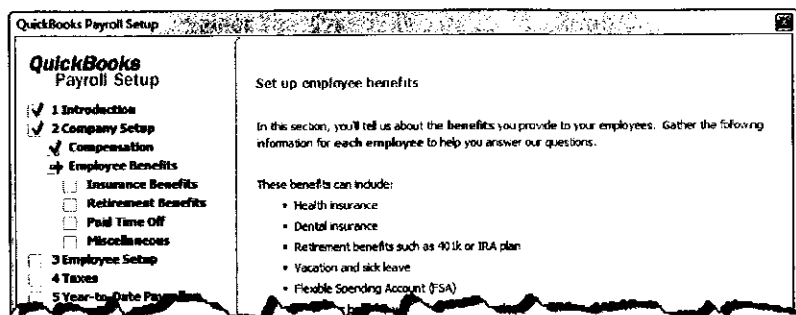


Figure 10-11 Payroll Setup Interview – Set up Employee benefits

In this section of the setup wizard, you will set up the benefits you offer (health insurance, dental insurance, retirements plans, etc.), and any other additions or deductions that affect the Employees' gross income (e.g., expense reimbursements, dues, garnishments, etc.). If your company provides benefits, there are three options for allocating the costs between the company and the Employee. First, the company could pay the entire expense; second, the company and Employee could share the expense; and third, the Employee could pay the entire expense.

If your company pays the entire expense, Payroll is usually not involved. However, there are certain circumstances when you would need to adjust the W-2s to include the benefits. Check with your tax professional.

If the costs are shared between the company and the Employees, or if the Employees pay for the entire cost via Payroll deductions, use a *Deduction Item* to track the deductions. The following method is the simplest way to handle this type of deduction in Payroll:

Now, we will resume the exercise.

COMPUTER PRACTICE

Step 1. In the *Set up insurance benefits* page (Figure 10-12), click **Health insurance** and then click **Next**.

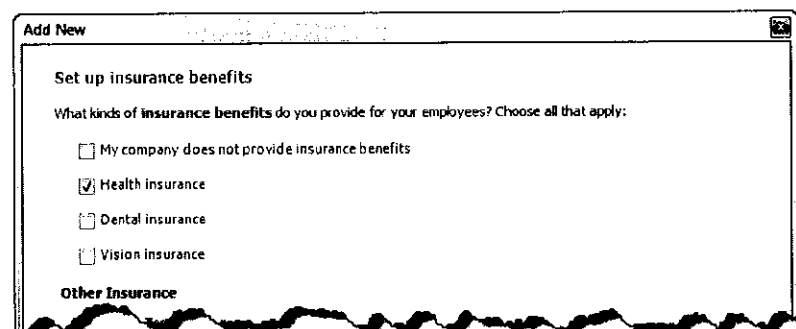


Figure 10-12 Set up insurance benefits page

Step 2. Select the option for **Both the employee and company pay portions**, as shown in Figure 10-13, and then click **Next**.

Even though Academy Photography pays most of the health insurance costs, this Item will be set up to deduct a portion of the expense after taxes from paychecks. We'll have to modify it later to connect the Payroll Item to the health insurance expense account. Make sure to leave the **Payment is deducted after taxes** option selected.

Add New

Tell us about health insurance

How is Health Insurance paid?

☐ Company pays for all of it

☒ Both the employee and company pay portions

☐ Employee pays for all of it

Is the employee portion deducted before or after taxes are calculated?

☒ Payment is deducted after taxes

☐ Payment is deducted BEFORE taxes (section 125)

[Help me decide which one to choose.](#)

Figure 10-13 The health insurance Payroll Item setup screen

Step 3. In Figure 10-14 the *Payroll Setup Interview* asks if you want to setup the Payee, Account #, and Payment frequency. Leave **I don't need a regular payment schedule for this item** selected and click **Finish**.

☒ I don't need a regular payment schedule for this item

Figure 10-14 Setting up the payment schedule window

Step 4. The *Insurance Benefits* list window displays.

QuickBooks Payroll Setup

QuickBooks Payroll Setup

- ☒ 1 Introduction
- ☒ 2 Company Setup
- ☒ 3 Compensation
- ☒ 4 Employee Benefits
- ☒ 5 Insurance Benefits
- ☐ 6 Retirement Benefits

Review your Insurance Benefits list

Insurance Item	Description
Health Insurance (company paid)	Company-Paid Health
Health Insurance (taxable)	After-Tax Employee-Paid Health

Figure 10-15 Insurance Items list

Notice in Figure 10-15 that QuickBooks has added two Payroll Items. One Item, *Health Insurance (company paid)*, was added to track the accruals for the employer portion of the health insurance costs, and the other Item, *Health Insurance (taxable)*, to track the Employee deductions. However, for our example, the employer pays the health insurance bill by directly coding the bill to Health Insurance expense. Then, the employer deducts the Employees' portion of the health insurance costs from their paychecks. So we'll delete the *Health Insurance (company paid)* Item because we won't accrue the employer's portion of the health insurance costs through Payroll.

- Step 5. Select the *Health Insurance (company paid)* Item (see Figure 10-15), and then click **Delete**.
- Step 6. Click **Yes** on the *Delete Payroll Item* window.
- Step 7. Next, select the *Health Insurance (taxable)* Item and click **Edit** (see Figure 10-16). Change the name to **Medical Insurance** in the *Show on paychecks as* field and click **Next**.

Figure 10-16 Edit: After-Tax Employee-Paid Health window

- Step 8. Click **Next** to skip the option to edit the payment schedule and move to the next window.
- Step 9. In the *Edit After-Tax Employee-Paid Health* section, change the *Account type* to **Expense**. Ignore the warning displayed next to the *Account name* that the Account type must be a liability account, and select **Insurance Expense:Health Insurance Expense** from the *Account name* drop-down list (see Figure 10-17). Then click **Next**.

Figure 10-17 Account type and Account name window

- Step 10. Leave the defaults in the tax tracking type window and click **Next** (see Figure 10-18).

Figure 10-18 Tax tracking type window

Step 11. Change the default rate to 100.00 and click **Finish** (see Figure 10-19).

Figure 10-19 Setting the default rate

Step 12. You will return to the *Insurance Benefits* list. Click **Continue**.

401(k) Employee Deduction and Company Match Items

If you have a 401(k) plan, you can set up Payroll Items to track the employer contributions and the Employee contributions (salary deferral) to the plan.

COMPUTER PRACTICE

Step 1. On the *Tell us about your company retirement benefits* screen (Figure 10-20), click on the **401(k)** item and click **Next**.

Figure 10-20 Adding the 401(k) Payroll Items

Step 2. Click **Finish** to accept the default selection and not set up a regular payment schedule for the 401(k) at this time.

Step 3. Next, edit each of the default Items shown in Figure 10-21. First, select the **401k Co. Match** item and click **Edit**.

Figure 10-21 The default Item names for 401k

Step 4. Type **Match 401k** in the *Show on paychecks as* field (see Figure 10-22). Click **Next**.

Figure 10-22 Modifying the Company Match Item name for 401k

Step 5. Type **Merrill Lynch** in the *Payee (Vendor)* field and **99-1133334** in the *Account #* field and click **Next** (see Figure 10-23).

Figure 10-23 Modifying the Company Match Item Payee and Account # for 401k

Step 6. In the *Expense account* section, select **Payroll Expenses: Employee Benefits** from the drop-down list in the *Account name* field. You may need to scroll up to find this selection. In the *Liability account* section, select **Payroll Liabilities: Other Payroll Liabilities** from the drop-down list in the *Account name* field. (See Figure 10-24.) Click **Next**.

Figure 10-24 Modifying the Expense account and Liability account information

Step 7. On the next window, leave the **Use standard tax settings** checked and click **Next**.

Step 8. On the *Tell us how to calculate the amount* screen, enter the information shown in Figure 10-25 and then click **Finish**.

Edit: 401(k) Company Match

Tell us how to calculate the amount

Choose a method to calculate the amount then specify a default.

Calculate amount as a percentage of pay

Default rate or amount 2% [Explain](#)

Limit type Annual limit (reset accrual on Jan 1)

Default limit 5,500.00 [Explain](#)

Figure 10-25 Setting the calculation method, amounts, and limit for 401(k) contribution Item

Step 9. You will return to the Retirement Benefit list window. Select the **401k Emp. Item** and click **Edit**.

Step 10. Enter the data as shown in Figure 10-26 and then click **Next**.

Edit 401(k)

Show on paychecks as 401k Deduction

Payroll item is Active [Explain](#)

☐ Track expenses by job [Explain](#)

Figure 10-26 401(k) Deduction Item

Step 11. Enter the data as shown in Figure 10-27 and then click **Next**.

Edit the payment schedule for 401(k)

Payee (Vendor) Merrill Lynch [Explain](#)

Account # 99-1133334
(The number the payee uses to identify you. Example: 99-99999X)

Payment frequency

☐ Weekly, on Monday for the previous week's liabilities

☐ Monthly, on the 1 day of the month for the previous month's liabilities

☐ Quarterly, on the 1 day of the month for the previous quarter's liabilities

☐ Annually, on January 1 for the previous year's liabilities

☒ I don't need a regular payment schedule for this item

Figure 10-27 401(k) Payee and Account #

Step 12. Enter the data as shown in Figure 10-28 and then click **Next**.

Edit 401(k)

Liability account

Account type Liability [Explain](#)

Account name Payroll Liabilities:Other Payroll Liabilities

Figure 10-28 Setting the payee and account for the 401(k) Deduction Item.

Step 13. Leave the *Use standard tax settings* checked and click **Next**.

Step 14. Enter the data as shown in Figure 10-29 and then click **Finish**.

Tell us how to calculate the amount

Choose a method to calculate the amount then specify a default.

Calculate amount as a percentage of pay ▼

Default rate or amount 4% [Explain](#)

Limit type Annual limit (reset accrual on Jan 1) ▼

Default limit 16,500.00 [Explain](#)

Figure 10-29 Setting the calculation method, amounts, and limit for 401(k) deduction Item

You're now finished with setting up the retirement benefits portion of your Payroll Item list. Your *Payroll Setup Interview* should now look like Figure 10-30.

Retirement Item	Description
401k Deduction	401(k)
Match 401k	401(k) Company Match

Figure 10-30 Progress in the Payroll Setup Interview.

Step 15. Click **Continue** to proceed to the next section of the setup.

Note:

If you have 401(k) deductions for several Employees, you'll probably want to set up separate Deduction Items for each Employee. Enter the Employee's account number in the **Enter the number that identifies you to agency** field. That way, when you pay your liabilities, the voucher of the liability check lists deductions separately for each Employee. Alternatively, you could use just one Deduction Item and send a printout of your *Payroll Summary Report* with your payment to the 401(k) administrator. Filter that report to show only the *401(k) Deduction* and the *Match 401(k)* Items. You'll have to handwrite the account numbers for each Employee on the report.

Paid Time Off Payroll Items

If you pay Employees for time off, the *Payroll Setup Interview* will walk you through creating Items to track and pay vacation or sick pay.

COMPUTER PRACTICE

Step 1. On the *Set up paid time off* screen (Figure 10-31), click on the **Paid vacation time off** Item and click **Finish**.

Figure 10-31 Adding Paid vacation Payroll Items

Note:

If you have a “Paid Time Off (PTO)” policy instead of separate sick and vacation time, you can use either Sick or Vacation time to keep track of how much PTO you offer your Employees. Rename it on the *Payroll Preferences* so that when it prints on your paychecks and pay stubs, it appears as Paid Time Off. Within QuickBooks, however, it continues to appear as either Sick or Vacation, depending on which one you choose.

- Step 2. Next, edit each of the default Items shown in Figure 10-32 to match the data shown in the subsequent screens. First, select *Hourly Vacation* and click **Edit**.

Review your Paid Time Off list	
Paid Time Off	Description
Hourly Vacation	Vacation Taken
Salary Vacation	Vacation Taken

Figure 10-32 The default Item names for vacation tracking

- Step 3. Set the expense account to **Payroll Expenses:Gross Wages** as shown in Figure 10-33. Then click **Finish**.

Figure 10-33 Modifying the Hourly Vacation Item

- Step 4. Next, edit the Salary Vacation Item to match the *Account* shown in Figure 10-34. Then click **Finish**.

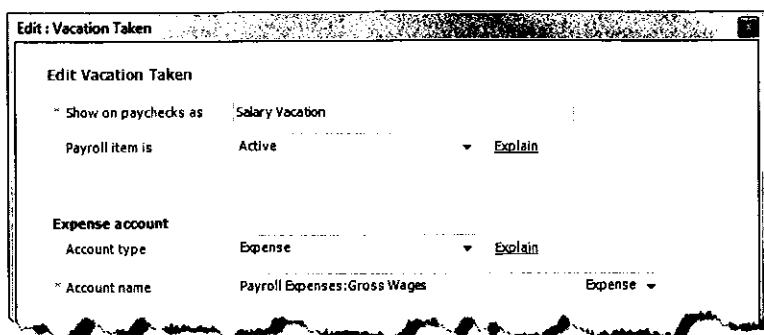


Figure 10-34 Modifying the Salary Vacation Item

You're now finished with setting up the Paid Time Off portion of your Payroll Item list. Your *Payroll Setup Interview* should now look like Figure 10-35.

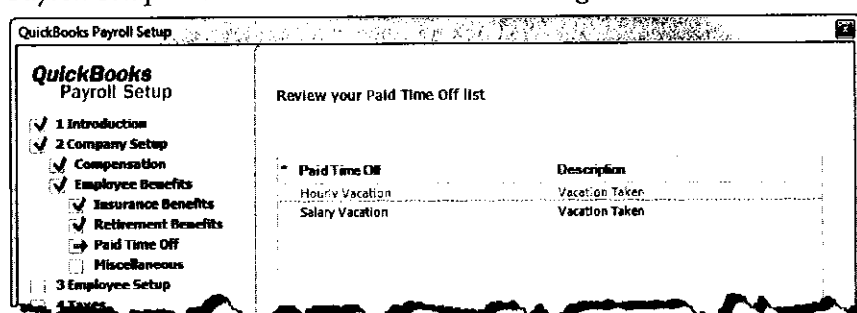


Figure 10-35 Progress in the Payroll Setup Interview.

Step 5. Click **Continue** to proceed to the next section of the setup.

In the next section, you can set up other types of additions and deductions that are relevant to your company. The process is similar to the earlier steps and you can follow the onscreen instructions.

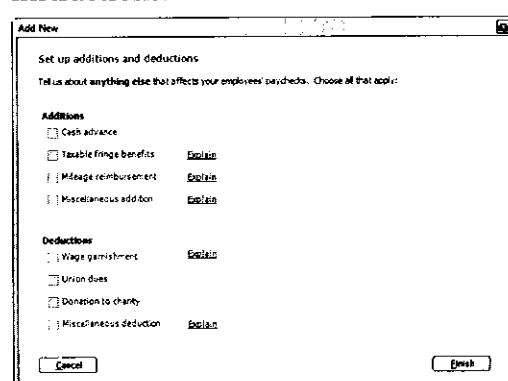


Figure 10-36 Other additions and deductions screen

Step 6. Click **Finish** to skip the screen shown in Figure 10-36.

Step 7. Click **Continue** to advance to setting up Employees.

Setting up Employees

COMPUTER PRACTICE

After you have set up your Payroll Items, the setup wizard takes you through setting up Employees.

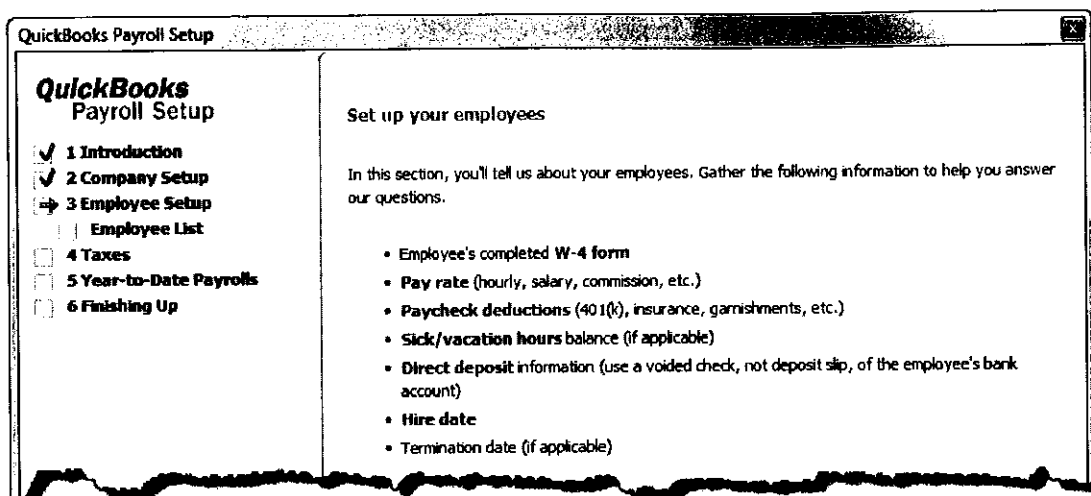


Figure 10-37 Set up Employees starting point in the Payroll Setup Interview.

- Step 1. On the *Set up Employees* window (Figure 10-37), click **Continue**.
 Step 2. Enter the information shown in Figure 10-38 and then click **Next**.

Figure 10-38 Entering Kati Reynolds' address information

Note:

QuickBooks uses the Employee name fields (first name, middle initial, then last name) to distinguish between Employees. Therefore, if two Employees have the same name, you must not use their exact names in the Employee list. If necessary, add or omit a middle initial to distinguish between different Employees with the same name.

- Step 3. In the *hiring information* window, enter the data as shown in Figure 10-39 and then click **Next**.

Employee Kati Reynolds

Enter Kati Reynolds's hiring information

Employee type: Regular [Explain](#)

Other hiring information

✓ Social Security #: 333-22-4321

✓ Hire date (mm/dd/yyyy): 3/26/2007

Release date: Last day of employment

Birth date: 3/31/1971

Gender: Female

Figure 10-39 Hiring information window for Kati Reynolds

Step 4. In the *wages and compensation for Kati Reynolds* window, enter the information as shown in Figure 10-40. Then click **Next**.

Employee Kati Reynolds

Tell us about wages and compensation for Kati Reynolds

Pay frequency: Twice a month (Semimonthly)

What regular compensation does Kati Reynolds receive?

☐ Employee is paid hourly

☒ **Employee is paid on salary**

☐ Employee does not have any base compensation

Salary amount: 60,000.00 Per Year

	Regular wages	Amount	Description
<input type="checkbox"/> Bonus			default amount
<input type="checkbox"/> Commission			% commission

Figure 10-40 Pay frequency and compensation window for Kati Reynolds

Step 5. Select the benefit Items as shown in Figure 10-41. Then click **Next**.

Employee Kati Reynolds

Tell us about benefits for Kati Reynolds

For each benefit, specify the amount to be deducted **per paycheck** (for example, \$100 or 10%). Enter the annual limit to be deducted as a \$ amount.

#	Use	Item	Description	Amount (\$ or %)	Annual Limit (\$)
1	<input checked="" type="checkbox"/>	401k Deduction		\$0.00	16,500.0
2	<input checked="" type="checkbox"/>	Match 401k		\$0.00	5,500.00
3	<input checked="" type="checkbox"/>	Medical Insurance		\$100.00	0.00

Figure 10-41 Selecting the benefits Items to add to Kati Reynolds' paychecks

Step 6. Enter the vacation time calculation method for Kati Reynolds as shown in Figure 10-42. Leave the Current balances blank. Then click **Next**.

Employee Kati Reynolds

How is vacation time off calculated for Kati Reynolds?

Calculation

Kati Reynolds earns 80:00 hours per year

Unused vacation hours have an accrual limit

Maximum hours 200:00

Kati Reynolds earns time off currently

Figure 10-42 Vacation time calculation for Kati Reynolds

Step 7. Click **Next** to skip the *direct deposit information* screen.

Step 8. Enter the information shown in Figure 10-43 and then click **Next**.

Employee Kati Reynolds

Tell us where Kati Reynolds is subject to taxes

State subject to withholding CA - California [Explain](#)

Usually where the employee lives

State subject to unemployment tax CA - California [Explain](#)

Usually where the employee works

While working for you in 2018, did Kati Reynolds live or work in another state?

☒ No

☐ Yes

Figure 10-43 State information for Kati Reynolds

Step 9. Enter the federal tax information as shown in Figure 10-44 and then click **Next**.

Employee Kati Reynolds

Enter federal tax information for Kati Reynolds

Filing Status Married [Explain](#)

Allowances 2 [Explain](#)

Extra Withholding [Explain](#)

Nonresident Alien Withholding Does not apply [Explain](#)

HIRE Act Exemption Not a qualified employee [Explain](#)

Withholdings and Credits:
Most employees' wages are subject to the following withholdings; also, most employees are not eligible for the Advance Earned Income Credit. Incorrectly changing the selections below will cause your taxes to be calculated incorrectly, resulting in penalties; be sure to check with your tax agency or accountant if you are unsure.

☒ Subject to Medicare [Explain](#)

☒ Subject to Social Security [Explain](#)

☒ Subject to Federal Unemployment

☐ Subject to Advance Earned Income Credit [Explain](#)

Figure 10-44 Kati Reynolds' federal tax information

Step 10. Enter the state tax information as shown in Figure 10-45 and then click **Next**.

Employee Kati Reynolds

Enter state tax information for Kati Reynolds

CA - California state taxes

Filing Status: Married (two incomes) [Explain](#)

Regular Withholding Allowances: 2 [Explain](#)

Estimated Deductions: [Explain](#)

Extra Withholding:

Most employees' wages are subject to the following withholdings. Incorrectly changing the selections below will cause your taxes to be calculated incorrectly, resulting in penalties; be sure to check with your tax agency or accountant if you are unsure.

☒ Subject to CA - Unemployment

☒ Subject to CA - Employment Training Tax

☒ Subject to CA - Disability

Is this employee subject to any special local taxes not shown above?

☒ No

☐ Yes

[Some of the taxes for employees who changed locations aren't listed here. Why?](#)

Figure 10-45 Kati Reynolds' state tax information

Step 11. Choose S (State Plan for Both UI and DI) from the *Setup wage plan information for Kati Reynolds* as shown in Figure 10-46.

Employee Kati Reynolds

Setup wage plan information for Kati Reynolds

Select a California wage plan code for this employee.

Wage Plan Code: S (State Plan For Both UI and DI) [Get code information](#)

S (State Plan For Both UI and DI)

Employee is covered under a State Plan for both Unemployment Insurance and Disability Insurance.

Figure 10-46 Setup wage plan information for Kati Reynolds

Step 12. Click **Finish**.

Step 13. You've finished setting up Kati Reynolds, your screen should look like Figure 10-47.

QuickBooks Payroll Setup

QuickBooks Payroll Setup

- ✓ 1 Introduction
- ✓ 2 Company Setup
- ✓ 3 Employee Setup
- 4 Taxes
- 5 Year-to-Date Payrolls
- 6 Finishing Up

Review your Employee list

Employee	Social Security	Summary
Kati Reynolds	333-22-4321	

Figure 10-47 Progress in the Payroll Setup Interview.

Payroll Tax Item Setup

COMPUTER PRACTICE

The next section of the *Payroll Setup Interview* helps you set up the Payroll tax Items. Continue on with the *Payroll Setup Interview*, following these steps:

Step 1. The first screen of the Payroll taxes setup is shown in Figure 10-48. Click **Continue**.

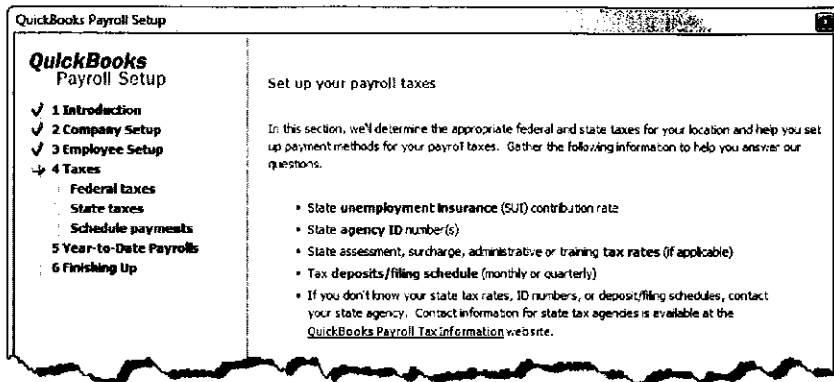


Figure 10-48 Setting up Employees completed

Step 2. QuickBooks displays the federal Payroll tax Items that have been set up for you (see Figure 10-49). Click **Continue**.

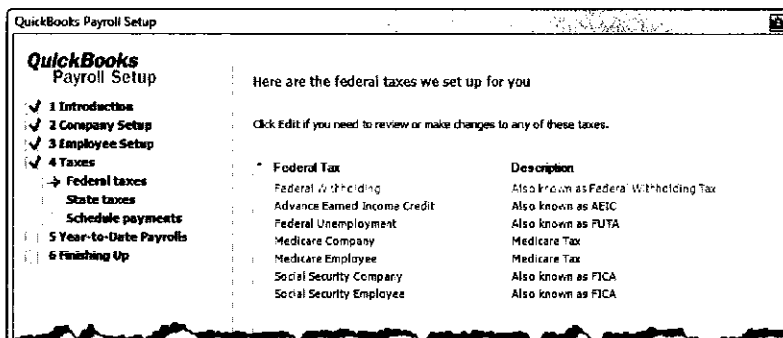


Figure 10-49 Federal Payroll tax Items

Step 3. In the company file you are using, QuickBooks displays the *Set up state payroll taxes* window because the *Unemployment Company Rate* must be entered in manually (since we are processing Payroll manually). Enter **3.4%** in the **CA – Unemployment Company Rate** field (see Figure 10-50). Press **Tab** to accept the entry and **Finish** to move to review your state taxes.

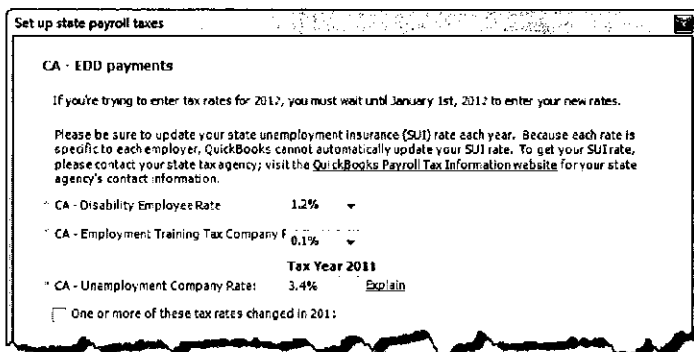


Figure 10-50 Entering in 3.4% in the California Unemployment Company Rate field – your screen may vary

Step 4. Review the state Payroll tax Items shown in Figure 10-51. Then click **Continue**.

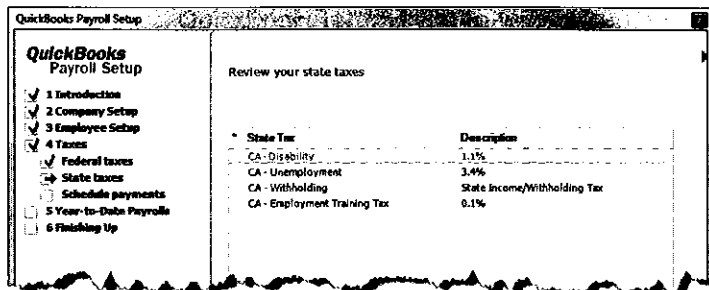


Figure 10-51 State Payroll tax Items

Scheduling Your Tax Payments

COMPUTER PRACTICE

The next section of the *Payroll Setup Interview* helps you to schedule your tax payments. Continue on with the *Payroll Setup Interview* following these steps:

- Step 1. The first screen in the Payroll taxes section is shown in Figure 10-52. This is where you set up the Vendor name for the payee on federal tax payments for Federal 940. The default Vendor name is United States Treasury. However, since you'll most likely make payments using the Electronic Federal Tax Payment System (EFTPS), the sample data file has already been set up with a vendor called EFTPS. Select **EFTPS** as the *Payee* (Vendor) you use to pay your liabilities for Federal taxes. In addition, select **Quarterly** from the drop down list in the *Deposit Frequency* field. Click **Next**.

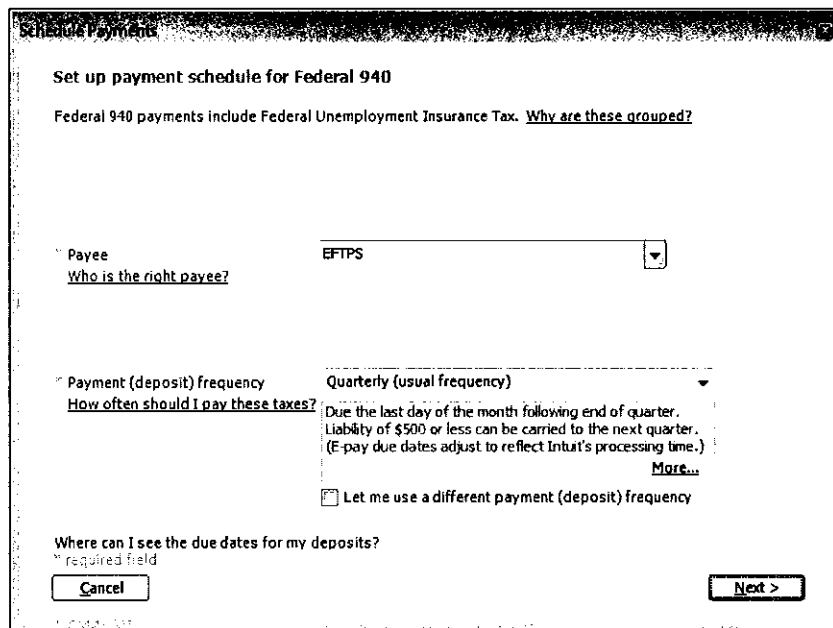


Figure 10-52 Set up payments for Federal 940

- Step 2. To set up payments for Federal 941/944, enter in the data shown in Figure 10-53 and click **Next**.

Schedule Payments

Set up payment schedule for Federal 941/944

Federal 941/944 payments include Federal Withholding, Social Security, and Medicare. [Why are these grouped?](#)

Payee: EFTPS
[Who is the right payee?](#)

Payment (deposit) frequency: Quarterly
[How often should I pay these taxes?](#)
Due the last day of the month following the end of the quarter. Example: Apr 30, Jul 31, Oct 31, and Jan 31. (E-pay due dates adjust to reflect Intuit's processing time.)
[More...](#)

☐ Let me use a different payment (deposit) frequency

Where can I see the due dates for my deposits?
* required field

Cancel < Previous Next >

Figure 10-53 Set up payments for Federal 941/944

Step 3. To set up payments for California Withholding and Disability Insurance, enter in the data shown in Figure 10-54 and click **Next**.

Schedule Payments

Set up payment schedule for CA Withholding and Disability Insurance

CA Withholding payments include Income Tax Withholdings and State Disability Insurance. [Why are these grouped?](#)

Payee: EDD
[Who is the right payee?](#)

CA Employment Development Dept Employer Acct No.: 123-4567-8
[What number do I enter?](#)

Payment (deposit) frequency: Quarterly
[How often should I pay these taxes?](#)
Due the last day of the month following the end of the quarter. Example: Apr 30, Jul 31, Oct 31, and Jan 31. (E-pay due dates adjust to reflect Intuit's processing time.)
[More...](#)

☐ Let me use a different payment (deposit) frequency

Where can I see the due dates for my deposits?

Cancel < Previous Next >

Figure 10-54 Set up payments for CA UI and Employment Training Tax

Step 4. To set up payments for California Unemployment Insurance (UI) and Employment Training Tax, enter the data shown in Figure 10-55 and click **Finish**.

Schedule Payments

Set up payment schedule for CA UI and Employment Training Tax

CA UI payments include Unemployment Insurance and Employment Training Tax. [Why are these grouped?](#)

Payee: EDD
[Who is the right payee?](#)

CA Employment Development Dept Employer Acct No.: 123-4567-8
[What number do I enter?](#)

Payment (deposit) frequency: Quarterly (usual frequency)
[How often should I pay these taxes?](#)
Due the last day of the month following the end of the quarter. Example: Apr 30, Jul 31, Oct 31, and Jan 31. (E-pay due dates adjust to reflect Intuit's processing time.)
[More...](#)

☐ Let me use a different payment (deposit) frequency

Where can I see the due dates for my deposits?

Cancel < Previous Finish

Figure 10-55 Set up payments for CA Withholding and Disability Insurance

- Step 5. QuickBooks returns you to window where you can review the list of your scheduled tax payments (see Figure 10-56). Click **Continue** to set up your year-to-date amounts.

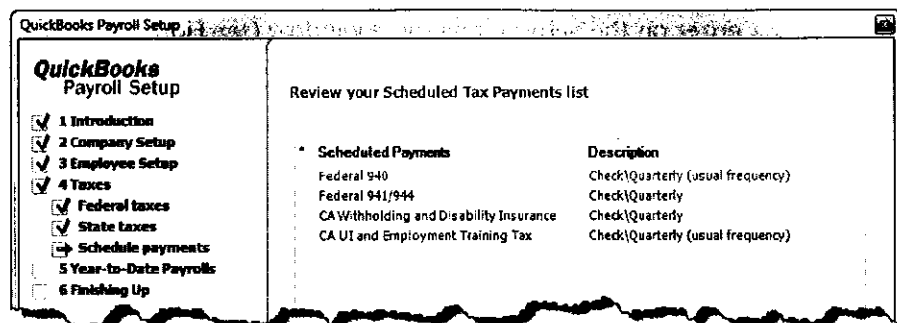


Figure 10-56 Review your Scheduled Tax Payments list

Setting up Year-to-Date Payroll Amounts

COMPUTER PRACTICE

- Step 1. Click **Continue** on the *Enter Payroll history for the current year* window (Figure 10-57).

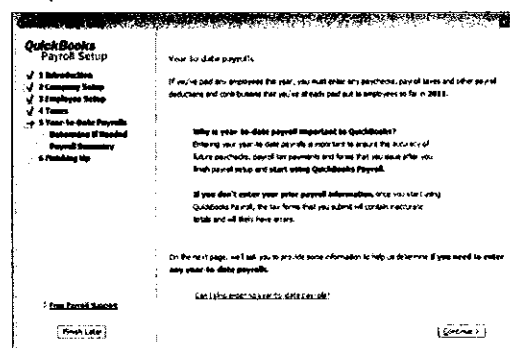


Figure 10-57 Entering YTD Payroll Amounts

- Step 2. On the window shown in Figure 10-58, click **No** and then click **Continue**.

If you were setting up your own Payroll in the middle of the year, you would click **Yes** on this page and then QuickBooks would lead you down a set of screens where you would set up each Employee's Payroll history for the current year. However, this example assumes that you're setting up Payroll at the beginning of the year, so click **Continue**.

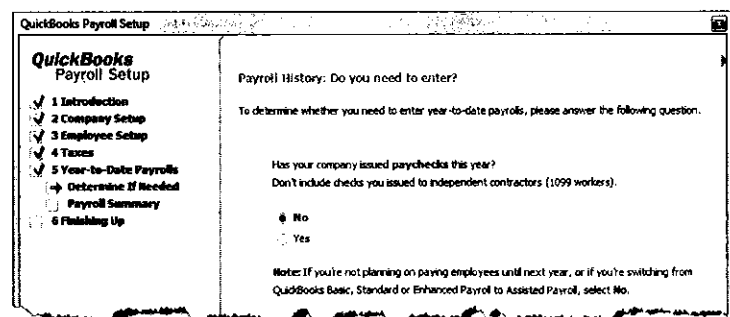


Figure 10-58 Finished with YTD Payroll Amounts completed

Finishing Up the *Payroll Setup Interview*

COMPUTER PRACTICE

Step 1. Click **Go to Payroll Center** on the Setup is complete window (see Figure 10-59).

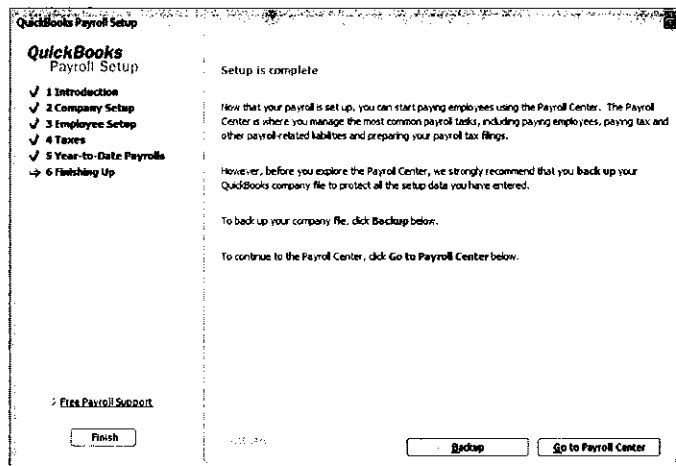


Figure 10-59 The Congratulations window

Step 2. The *Employee Center* is shown in Figure 10-60.

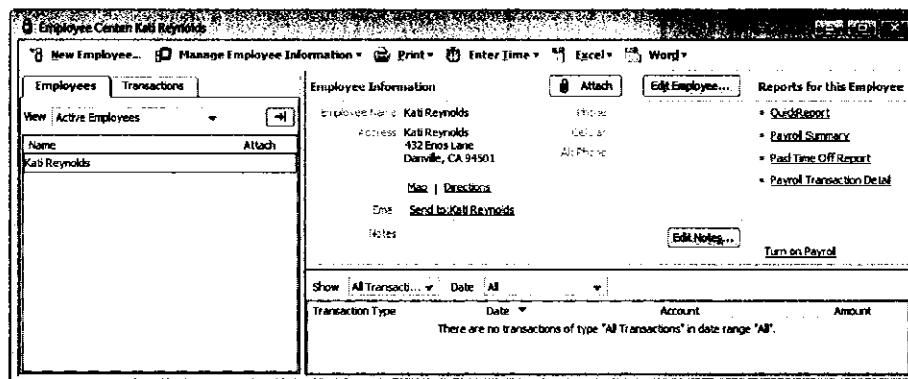


Figure 10-60 Employee Center

Note:

Because we are processing Payroll manually, the Employee Center does not display the Payroll tab. This tab displays only when Payroll is activated using a Payroll activation key.

Setting Up Employee Defaults

The *Employee Defaults* feature allows you to define defaults for your Employee records so that each time you add a new Employee, you don't have to enter the same information over and over. For example, if you pay all your Employees weekly, you can set up the defaults for weekly Payroll and that way you won't have to enter the pay period on each new Employee record. You don't have to use the *Employee Defaults*, but if you do, it will save you time and reduce the likelihood of errors.

COMPUTER PRACTICE

To set up the *Employee Defaults*, follow these steps:

Step 1. From the *Employee Center*, select the *Manage Employee Information* drop-down and select **Change New Employee Default Settings** as shown in Figure 10-61.

Note:

Setting up *Employee Defaults* only applies to new Employees you will set up after default settings are in place.

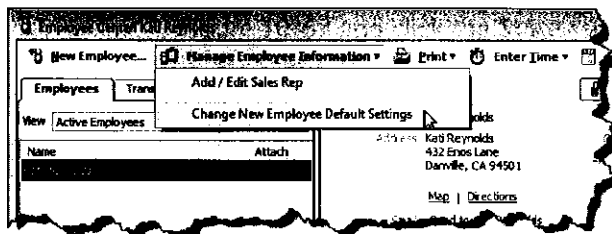


Figure 10-61 Selecting Employee Defaults from the Employee Center

- Step 2. In the *Employee Defaults* window, Select **<Add New>** from the *Payroll Schedule* drop-down list as shown in Figure 10-62.

The *Payroll Schedule* function allows you to group together Employees with the same pay frequency (i.e., weekly, bi-weekly, monthly, etc.) in order to make processing Employees with various Payroll schedules convenient and easy.

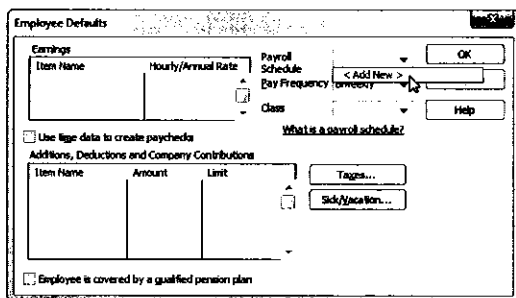


Figure 10-62 Adding a new Payroll Schedule

- Step 3. QuickBooks displays the *New Payroll Schedule* window. Complete the schedule based upon entries in Figure 10-63. Click **OK** to continue.

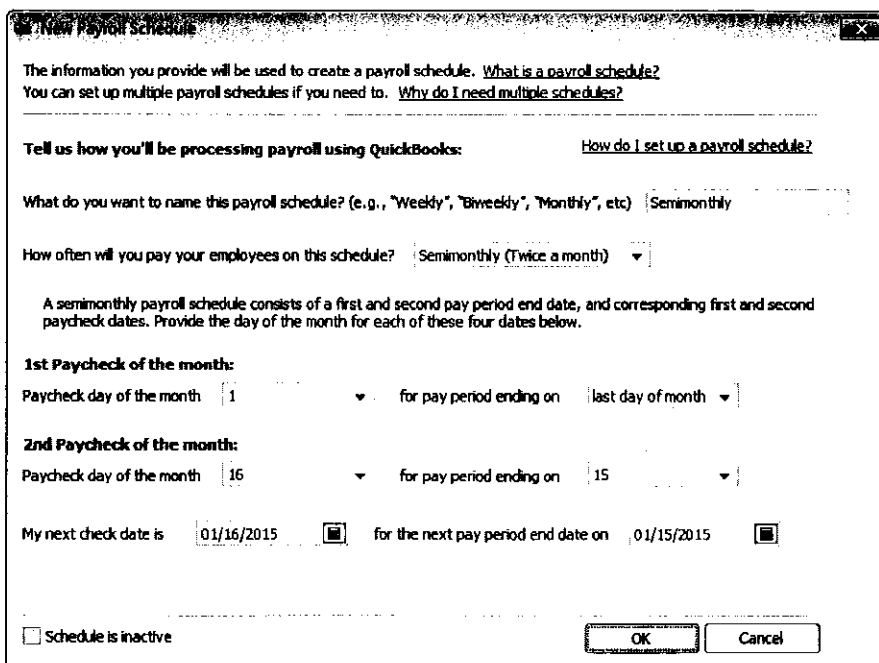


Figure 10-63 New Payroll Schedule

- Step 4. If QuickBooks displays the dialog box asking if the date is correct, click **Yes**.
- Step 5. In Figure 10-64 QuickBooks asks if you would like to assign the new schedule to all Employees with the Semimonthly pay frequency. Click **Yes**.

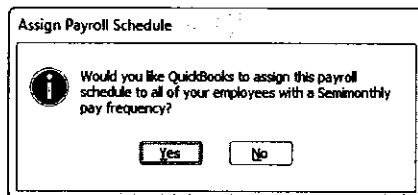


Figure 10-64 Assign Payroll Schedule dialog box

- Step 6. Figure 10-65 displays the number of Employees assigned to the new schedule. This information is helpful because it can alert you to assignment errors. Unfortunately, there is no way to undo global assignments. Click **OK**.

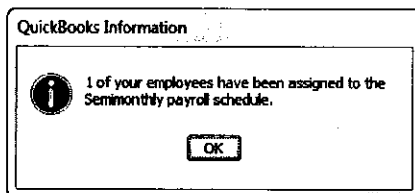


Figure 10-65 Number of Employees assigned a schedule dialog box

Note:

The Payroll Schedules list can be viewed in the *Payroll* tab of the *Employee Center*, which requires a Payroll subscription service from QuickBooks. In addition, Payroll Schedules cannot be deleted or modified without a Payroll subscription from QuickBooks.

- Step 7. Complete the remaining information as shown in Figure 10-66, by clicking the fields directly in the *Additions, Deletions and Company Contributions* section of the *Employee Defaults* window. Also make sure to check the box, **Use time data to create paychecks**, so that timesheet data can automatically transfer to the Employee's *Preview Paycheck* window.

Use the *Employee Defaults* window to set up the Payroll information that most of your Employees have in common. In the pay period, enter how often most Employees are paid. These are only defaults, so entering something here does not preclude you from overriding your choices for an individual Employee.

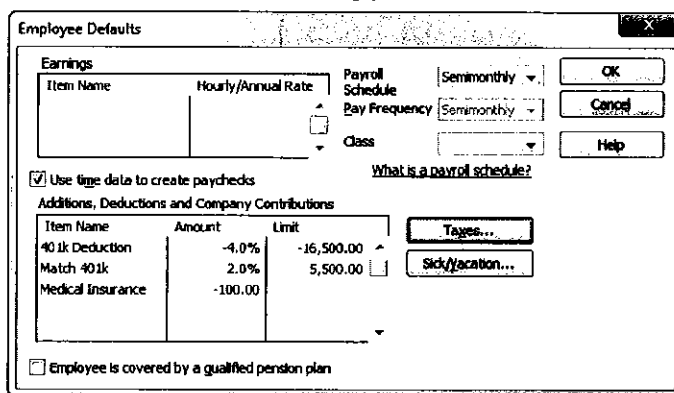


Figure 10-66 Employee Defaults window

- Step 8. Verify that your screen matches Figure 10-66, and then click **Taxes**.

Default settings for taxes

COMPUTER PRACTICE

Step 1. In the *Taxes Defaults* window, leave the default *Federal* tax settings as shown in Figure 10-67 and click the **State** tab.

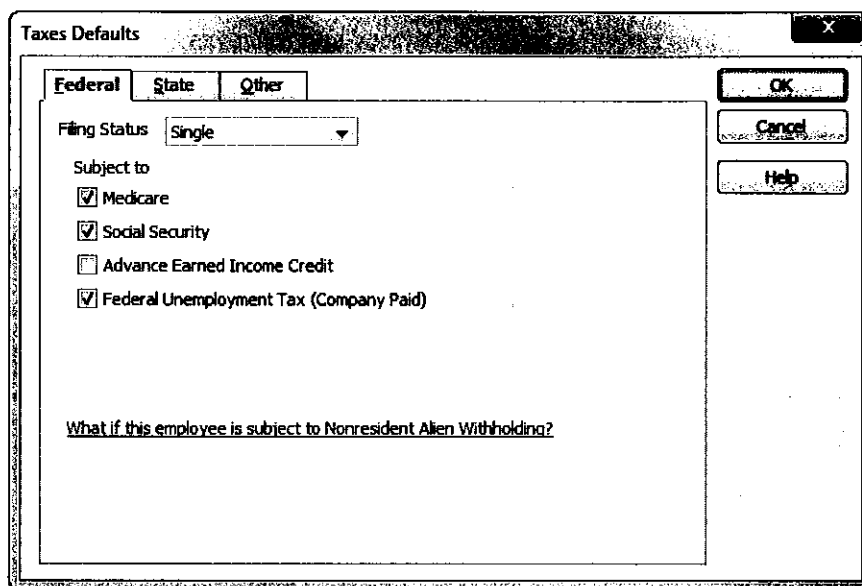


Figure 10-67 Taxes Defaults - Federal

Step 2. On the *State* taxes default window, select **CA** from the *State* drop-down list in both the **State Worked** and **State Subject to Withholding** sections (see Figure 10-68). This window will vary depending on the states you choose. Then click the **Other** tab.

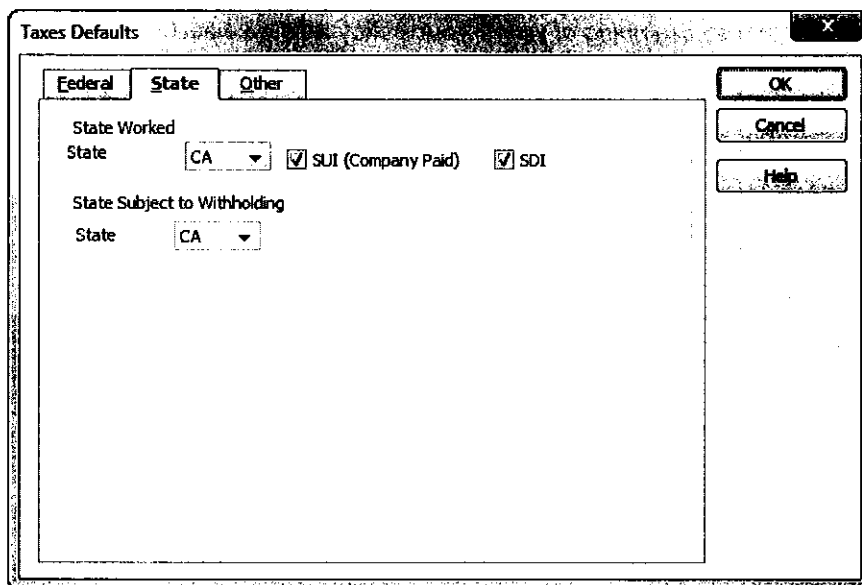


Figure 10-68 Taxes Defaults - State

Step 3. Select **CA – Employment Training Tax** in the *Item Name* section as shown in Figure 10-69. Then click **OK**.

If your State has local taxes, the *Other* tab should include the local taxes you must withhold or accrue.

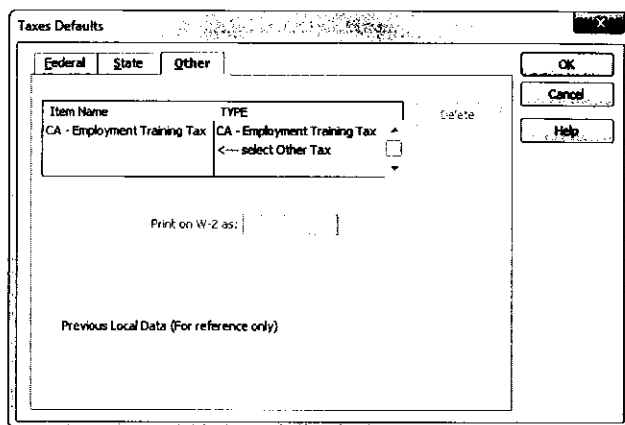


Figure 10-69 Taxes Defaults - Other

Note:

If your Employees are subject to any of the local taxes that are supported by QuickBooks, you can add those taxes here. If your local tax is not supported directly by QuickBooks, you should set up a *User Defined - Other* tax. See Payroll Taxes (Local) in the QuickBooks onscreen help for more information on these taxes.

Default Settings for Sick/Vacation Time**COMPUTER PRACTICE**

Step 1. On the *Employee Defaults* window, click **Sick/Vacation** (Figure 10-70).

This is where you choose sick and vacation time settings to match your company policies. You can choose *Beginning of year* if your policy is to give each Employee a set number of hours per year. If Employees earn sick or vacation time for each pay period, then choose *Every paycheck*. You can also choose to accrue sick and vacation based on the number of hours worked or just once per year. Select the appropriate option from the *Accrual period* drop-down list.

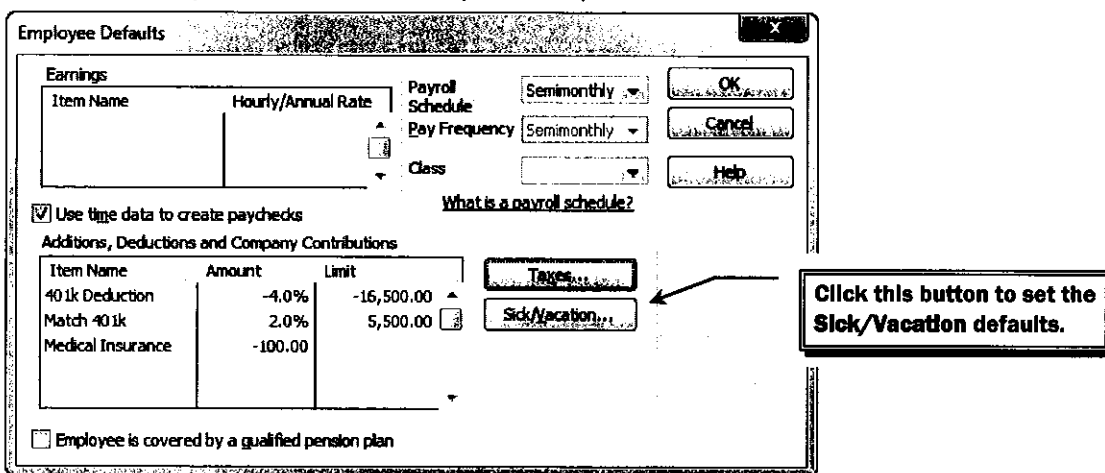


Figure 10-70 Employee Defaults window

Step 2. Since Academy Photography only offers its Employees vacation time, we will only set up vacation defaults.

- Step 3. In the *Vacation* section, select **Every paycheck** from the *Accrual period* drop-down list to indicate how often you want vacation hours accrued.
- Step 4. Enter **3:00** in the *Hours accrued per paycheck* field and press **Tab**.
- Step 5. Enter **200:00** in the *Maximum number of hours* field.
- Step 6. Leave *Reset hours each new year?* unchecked.
- Step 7. Leave *Sick and vacation hours paid* unchecked.
- Step 8. Check **Overtime hours paid**.
- Step 9. Verify your results match Figure 10-71. Click **OK** to save your work on this window, then click **OK** on the *Employee Defaults* window to save your changes.

Figure 10-71 Sick and Vacation Defaults

The Employee Contact List report

You can print a list of Employees by following the steps below.

COMPUTER PRACTICE

- Step 1. Select the **Reports** menu, select **List**, and then select **Employee Contact List** (see Figure 10-72).

Figure 10-72 Employee Contact List

- Step 2. Click **Print** at the top of the report and follow the prompts to print the report. Then, close the *Employee Contact List* report.

Review Questions

Multiple Choice

Select the best answer(s) for each of the following:

- An easy and convenient way to process Payroll in QuickBooks for Employees on different Payroll schedules would be to:
 - Move all Employees onto a single schedule
 - Use the *Payroll Schedule* function in QuickBooks
 - Outsource Payroll
 - Make all Employees independent contractors
- Which of the following Payroll periods is not an option in QuickBooks?
 - Quarterly
 - Biweekly
 - Daily
 - Semiannually
- Which Payroll Item cannot be created in the *Payroll Setup Interview*:
 - Commissions
 - Bonus
 - Medical Insurance Deduction
 - You can create all Items above during the *Payroll Setup Interview*
- Which is *not* an option when setting the accrual period for sick and vacation time?
 - Beginning of year
 - Every month
 - Every paycheck
 - Every hour on paycheck
- The *Payroll Setup Interview* will not allow you to:
 - Edit the default name for Payroll Items
 - Associate deduction and withholding Items with Vendors
 - Set the pay rate for an Employee
 - Add two Employees with exactly the same name

Payroll Setup Problem 1

APPLYING YOUR KNOWLEDGE

Restore the **PRSetup-11Problem1.QBM** file.

- Verify that your *Chart of Accounts* has the accounts shown in Table 10-3 below. These accounts have already been set up for you in the problem template.

♦24000 · Payroll Liabilities	Other Current Liability
♦24010 · Company Payroll Taxes Payable	Other Current Liability
♦24020 · Employee Payroll Taxes Payable	Other Current Liability
♦24030 · Other Payroll Liabilities	Other Current Liability

♦65000 · Payroll Expenses	Expense
♦65010 · Gross Wages	Expense
♦65030 · Payroll Tax Expense	Expense
♦65040 · Employee Benefits	Expense
♦65050 · Officer's Compensation	Expense

Table 10-3 Chart of Accounts for Payroll Setup

2. Using the *Payroll Setup Interview*, add the Payroll Items shown in Table 10-4.

Item Name	Setup Notes
(a) Salary Regular	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.
(b) Hourly Regular	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.
(c) Hourly Double-time	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.
(d) Hourly Time-and-a-half	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.
(e) Commission	Add a 4% commission Item. This Item should point to Gross Wages, a subaccount of the Payroll Expenses account. Commissions are calculated based upon percentage of sales.
(f) Health Insurance	Use Health Insurance (taxable) Item to set up this Item. Leave the payee and account number fields blank. Use "Payroll Liabilities:Other Payroll Liabilities" to track the withholding. Employee pays for all of it and it is deducted after taxes at a flat rate of \$50.00. Select all other defaults.
(g) 401(k) Employee	Payee is Merrill Lynch. Account number with Merrill Lynch is "99-1123456." Liability account is "Payroll Liabilities:Other Payroll Liabilities," Tax Tracking type is "401(k)," and you should use the standard tax settings. The default rate is 4% as a percentage of pay and the default limit is \$16,000. This is a traditional 401(k) and not a Roth 401(k).
(h) Match 401(k)	Track this expense by Job. Payee is Merrill Lynch; Account number is "99-1123456." Expense account is "Payroll Expenses: Employee Benefits." Liability account is "Payroll Liabilities:Other Payroll Liabilities." Expense is "Payroll Expenses: Employee Benefits." Tax Tracking type is "None." Use standard tax settings. The default rate is 2% and the default limit is \$5,500.00.
(i) Salary Vacation	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.
(j) Hourly Vacation	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.
(k) Salary Sick	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.
(l) Hourly Sick	This Item should point to Gross Wages, a subaccount of the Payroll Expenses account.

Table 10-4 Add these Payroll Items.

3. Set up a new Employee with the following information:

Field	Data
First Name	Casey
M.I.	
Last Name	Miller
Print on check as	Casey Miller
Employee Status	Active
Address	5990 Fog Ave. San Francisco, CA 94555
Employee Tax Type	Regular
SS No.	123-12-3123
Hire Date	7/1/2009
Release Date	
Date of Birth	04/16/1975
Gender	Female
Pay Period	Weekly
Earnings	Hourly Regular – Rate \$28 per hour (leave all other fields blank)
Additions, Deductions, and Company Contributions	401(k) Employee (4%), limit \$16,000.00 Match 401(k) (2%), limit \$5,500.00 Health Insurance (\$50)
Sick/Vacation Settings	3 hours sick time per paycheck, maximum 80 hours 3 hours vacation time per paycheck, maximum 200 hours
Employee Works and lives	Works - CA; Lives - CA; Did not live or work in another state
Federal Filing Status	Single, 0 Allowances; Nonresident Alien Withholding: Does not apply; HIRE Act Exemption: Not a qualified employee; Subject to Social Security, Federal Unemployment, Medicare
State Filing Status	CA – Filing Status Single 0 regular withholding allowances; subject to Unemployment, Employment Training tax, and Disability; not subject to any special local taxes
Wage Plan Code	S (State Plan For Both UI and DI)

Table 10-5 New Employee setup information

4. Enter the Unemployment Rate for State Payroll Taxes as shown in Table 10-6.

Item Name	Setup Notes
Payee	EDD
California Tax ID	123-4567-8
Deposit Frequency	Quarterly
State Unemployment Rate	3.4%

Table 10-6 Setup for state Payroll taxes EDD Payments

5. Select **EFTPS** as the *Payee* (Vendor) for United States Treasury Payments. You deposit your taxes quarterly. You use this to pay your liabilities for Federal taxes. Click **Continue** to skip Federal Taxes window.
6. For the State Payroll taxes, setup the *Payee*, *Employer Acct. No.*, and *Payment Frequency* from Table 10-6 above.
7. Do not set up YTD amounts. On the *Payroll History: Do you need to enter?* screen, select **No**. Click **Go to Payroll Center** to complete the *Payroll Setup Interview*.
8. Set up your *Employee Defaults* for the following:

Field Name	Setup Notes
(a) Payroll Schedule	Weekly
(b) Additions, Deductions and Company Contributions	401(k) Employee (-4%), Maximum -16,000.00 Match 401(k) (2%), Maximum \$5,500.00 Health Insurance (-\$50 per paycheck)
(c) Federal Taxes	Filing Status: Single Subject to: Social Security, FUTA, Medicare
(d) State Taxes	Default State Worked: CA Default State Subject to Withholding: CA
(e) Other Taxes	CA – Employment Training Tax
(f) Sick Hours Accruals	Accrual Period: Beginning of Year Hours Accrued at Beginning of Year: 40 Maximum number of hours: 80 Reset hours each new year
(g) Vacation Hours Accruals	Accrual Period: Beginning of Year Hours Accrued at Beginning of Year: 80 Maximum number of hours: 200 Do not reset hours each new year.

Table 10-7 Employee default settings

9. Create a *Payroll Item Listing Report*. Select the **Reports** menu, then choose **List** and then choose **Payroll Item Listing**. Modify the *Report* to include the *Payable To* column and then print the report. Set the report to print on one page wide.
10. Create an Employee Contact List Report.